The Russian-Chinese relationship is complex to be sure. It is one with a long and sometimes common history of shared interests. In 2009 these two countries celebrated 60 years of diplomatic relations that spanned the Cold War, the emergence of China as an economic powerhouse, and the demise of the Soviet Union. The relationship has survived the important transition of power from Putin to Medvedev, the closing of an important market in Moscow for Chinese merchants, which caused consternation in Beijing, the 2009 Russian navy sinking a Chinese vessel in Russian waters, and the importance both Beijing and Moscow individually attach to their bilateral relations with Washington.

However, when it comes to Sino-Russian bilateral energy relations, complexities and contradictions in this association are magnified beyond the conventional. On the face of it, these countries are natural energy partners. Russia is one of the world's largest energy producers: on any given day it holds or has held the post-position as the world's largest producer of oil and is the world's largest producer of natural gas. China, which has evolved into the world's factory, exhibits an insatiable appetite for energy resources and power as it strives to build its economy and satiate its population with electricity and propulsion in an attempt to stave-off a major shift in its political system through ever-increasing prosperity. This relationship has been characterized by Anders Aslund of the Peterson Institute as "having an enormous complementarity between Russia, which has commodities, and China, which has cheap labor and manufacturing." In spite of recent advancements in cooperative energy engagement, and despite public overtures by the leadership of both countries to the importance and vitality of deepening engagement where both energy and power are concerned, the pace of progress has been slow and encumbered by mutual mistrust and differing policy agendas. The Sino-Russian 'strategic relationship' may not be all that it is portrayed to be.

**Recent history**
The fundamental reality driving China's energy strategy globally, and in its energy relationship with Russia in particular, is its inability to provide sufficient quantities of energy to satisfy its own domestic needs. Over the past two decades China has evolved from a net oil exporter to a net oil importer. This development underscores the important trajectory of Chinese energy expansionism from Latin America, to Africa, to the Middle East. Russia and the former Soviet states of Central Asia play an increasingly important role in China's own energy security, and quid pro quo in those countries' own long-term economic security. Recent developments point to the veracity of this observation. China has long lobbied Russia for easier access to its resource commodities; Russia has long pursued strengthening the Asian dimension of its foreign policy to offset American power and to magnify its political, foreign policy and economic influence vis-à-vis the Europeans by giving the impression of looking east.

To this end, over the past 12 months the Sino-Russian relationship has manifested itself in a number of practical and tangible ways. In December 2009, Russian Prime Minister Vladimir Putin opened a new oil export terminal that will serve as a key gateway for Russian energy exports to Asian markets. According to Russian information sources, the opening of the new oil terminal at Kozmino, near Nakhodka, pushes Russia closer to its strategic goal of diversifying its energy exports away from Europe and towards the Pacific Rim. This should allow, according to Russia's own updated energy strategy, for it to increase crude oil and oil product exports to the Asia-Pacific region to 22-25 percent (from 8 percent now), and to launch the export of natural gas to 19-20 percent (from a zero, flat-line basis now). This latter estimate, if it excludes Sakhalin LNG, would appear widely optimistic. However, if China proves serious about developing its natural gas transport infrastructure and gas-fired power generation, then these numbers could come to represent a more realistic assessment of Russia's Chinese dimension.

In 2009 China and Russia also signed a formal agreement that is providing Chinese capital today in exchange for Russian oil tomorrow. Long-term loans provided by China to Russia totaling $25 billion breakdown into $15 billion going to the Russian oil company (and effectively the Russian state oil holding company) "Rosneft" and $10 billion to the Russian state oil transportation company "Transneft". In return, Russia will repay the loans by providing China with 300 million tons of oil, at an average annual volume of 15 million tons or approximately 110 million barrels of oil per year, from 2011 to 2030. Volumes will increase over time once both segments of the Eastern Siberian-Pacific pipeline are completed. It is decidedly difficult to discern the precise financial calculations behind this agreement, but suffice it to say that China comes out ahead in this deal. The loans-for-oil agreement supports China's energy security through land-based energy transport, avoiding the key oil maritime choke-points of the Straits of Hormuz and the Straits of Malacca for tankered oil. It is yet another guaranteed source of oil supply for nearly the next two decades (albeit at a considerably lower rate of import dependency relative to China's other major oil suppliers, limiting even projected future Russian oil import dependence to a high of 20 percent) and, depending on the ultimate financial arrangements of the loans-for-oil agreement, a relatively cheap source of foreign imported oil.

To transport this oil, some of these loans are being used for the construction of a spur from the Eastern Siberia – Pacific Ocean (the ESPO pipeline) oil pipeline to China (above). If all goes well, according to the Chinese oil analyst Zhao Huasheng, "Russian oil will flow into China through this pipeline [next year] from the beginning of 2011," thereby marking a down payment by Russia on the $25 billion Chinese loan extension. Again, it is uncertain whether the ESPO spur is being financed separately by the Chinese authorities or is part of the $25 billion loan package as others contend. What is significant from a Russian perspective is that the loans provide liquidity for cash-strapped Rosneft and Transneft when other sources of international financing have dried up as a result of the global financial meltdown.

Other notable achievements in the Sino-Russian energy field over the past year have been the purchase by the Sino-Russian Energy Investment Company of a 51 percent stake in the Russian oil and gas company "Suntarneftegaz." China also obtained the development and production rights to two gas fields in East Siberia, which are more important for their political significance rather than for the amount of prospective gas the fields contain. The share of natural gas in China's energy mix is paltry given its heavy dependence on coal (64 percent of Chinese imported coal comes from Russia) and hydropower, but the increase in gas fired electricity generation is expected to significantly increase over the next two decades. One further note on coal. In mid-September 2010 the Russian Ministry of Industry and Trade announced that China had offered Russia $6 billion in loans in exchange for 25 years of guaranteed coal imports from Russia. This deal mimics the much larger $25 billion loans-for-oil agreement but again reflects Chinese interest in Russian energy resources well beyond oil.

Supporting this have also been recent statements from the vice chairman of the Chinese National Peoples Congress, on the occasion of the September 2010 Baikal Conference in Russia, on closer cooperation between Russia and China particularly along the border between Russia's Far East and Northwest China, across which (in addition to Russia's East Siberian coal reserves) much of this future coal will presumably be transported.

Returning to gas, for Russia it would appear that it prefers to slice-and-dice its Eastern Siberian gas resources, playing off China and other foreign investors against one another. Russia is providing largess to Chinese interests while at the same time squeezing the Russian-Anglo TNT-BP joint venture out of its coveted Eastern Siberian Kovtyka gas concessions on specious non-performance grounds.

**Scratching beneath the surface**

Continuing with the positive developments in energy cooperation cited above, is the observation made by many, but more narrowly qualified by some, that Sino-Russian relations in general have improved markedly over the past decade. In 2005 the parties settled a long and lingering border dispute that took 40 years to negotiate. The 2,700 mile border separating China and Russia is the single longest border between states in the world, which has led to wide-spread Chinese legal and illegal immigration into Russia. Secondly, stabilization with China is seen by many analysts alike as perhaps Russia's greatest foreign policy success over the past decade.

Sino-Russian trade, in general, has increased dramatically since 2000. Trade in terms of value reached an apex in 2008 at $58.8 billion, making China in 2009 Russia's single largest trading partner if its trade with the EU is disaggregated on a state-by-state basis. More troubling for Russia however is the fact that beginning with the September 2008 collapse in global oil prices, Sino-Russian trade, measured in dollar terms, actually fell in 2009 to $38.8 billion. This is less indicative of a dramatic fall in trade-volumes than it is attributable to a dramatic decrease in the per-barrel price of oil since 2008, given that oil dominates Russia's trade with China.

**Cracks in the energy veneer**

The fact is that Russia needs Chinese trade, particularly in terms of energy resources, more than China needs Russia. In 2009 Russia placed only 14th as a Chinese trading partner, accounting for only 1.7 percent of its total trade with foreign partners. The combined fall in global oil (and energy) prices coupled with the disproportionate relationship in trade suggests that Russia is not exporting less oil to China, but simply that the value of its hydrocarbon exports has declined over time due to an upward movement of the Chinese Yuan to the Russian ruble and a secondary devaluation of oil prices overall as noted above.

A more telling sign in the shifting pattern of Sino-Russian energy relations was the timing of the 2009-2010 agreements. For years, the Chinese complained of foot-dragging on the part of Russia in striking deals for oil and gas deliveries, in particular regarding the development of several pipeline projects highly desired by the Chinese. While, as indicated, the intensity of overall Sino-Russian trade has steadily increased, the energy trade has lagged in development against what many would consider rational, economic behavior. More recent developments in energy most certainly have been catalyzed by the fall in global oil prices since 2008 and a dramatic weakening of natural gas prices across Europe, providing the single largest stimulus for intensified Sino-Russian cooperation in the energy field. At the same time it is altogether unclear that China's inward foreign investment (loans) to Russia will necessarily end up directly benefiting China beyond the loans-for-oil agreement. These dollars may very well end up being re-circulated to shore up Transneft's dilapidated yet larger and more strategically important east-west infrastructure investment to the European gas market, where for much of the next decade its real fortunes lay. This observation is made in full view of many pundits' calculations that European gas market demand may not return to 2008 levels until after 2015. Russia's re-accession to 'great power' status derives directly from its ability to control and manipulate its downstream gas markets, particularly in Central and Eastern Europe. Preventing a loss of market in Europe (and the political leverage derived therefrom) is considered as high a priority in Russian business and political leadership-circles as its continued leverage over Ukraine (which continues to serve as the largest transit country for Russian gas to downstream Europe).

Today, Russia is China's fourth largest energy provider, providing approximately 9 percent of Chinese imports. A doubling of this percentage may occur over the next decade, especially if Russian gas comes online in China. But it is fighting against a host of intangibles. First among these are geography and demographics. In gas, for example, potential demand in China is in its industrially developed southeast, especially in Guandong province which is far from Russian gas fields. This makes infrastructure development and the delivered price of gas high to where it is most needed. Potentially gas rich Eastern Siberia is one option, but it is more proximate to less densely populated regions of China, where in the abstract its consumption would be most rational. Yet even these Chinese regions lack the economies of scale that could justify large-scale joint Sino-Russian investment in expensive land-based infrastructure. Inside Russia itself, as in the case of Eastern Siberia, Russia has been reluctant to develop the necessary network infrastructure, population centers and industrial concentrations necessary for the rational economic exploitation of its own gas resources. These reasons, among others, were cited by TNK-BP in explaining the slow development of its Kovtyka gas field concessions.

Among other intangibles is the fact that Russia resents being seen as primarily a provider of raw commodities to China. This puts the country on par with Africa and other lesser developed Middle Eastern states. Secondly, Moscow has long been a supplier of military hardware to China, but sales have been declining. In fact, Russia and China are competitors for sales of military hardware, and Russia has long held the notion, like other states, that transfers of sensitive hardware may be reverse engineered by the Chinese and end up competing with Russian products on international markets, which would further dilute Russian export revenue derived from products other than commodities and intensify the dependence of the Russian state on energy exports. Third, Russia cannot rule out the fact that, with China's rising military capability, sensitive arms sales may in the end be useful to the Chinese in the event of an unlikely future military conflict between these two states.

Yet other problems also exist. One is the sense of a weakening in the mutual 'camaraderie and partnership' between the two nations that reached its high-point during the Cold War but has since declined. Today, according to a Pew Global Attitudes survey, only 58 percent of Russians have a favorable view of China and only 46 percent of the Chinese have a favorable view of Russia. Part of this cooling in relations may be explained by a poll carried out by the FOM

Russian polling institute in October 2009 in which the question was asked, “Do you think that the growth of China is a threat to Russian interests?.” According to the poll’s findings, 44 percent of Russians responding indicated that in fact China was a threat to Russian interests, with 39 percent declining and 17 percent remained undecided. According to the results of the same poll, since 2002 Russians believe their country’s global influence has declined while the same Russian respondents indicated that that China’s relative international influence has increased by over 200 percent during the same 2002-2009 period. Again, growing recognition of rising Chinese power may reflect growing Russian dissatisfaction that Chinese ascendancy is in part being fueled by Russian resources. This throws a perceptual wrench into the works of the Sino-Russian ‘strategic partnership’, particularly where energy is concerned.

**Enter the US and Europe**

The shift in balance of the importance of China’s ‘strategic partnership’ away from Moscow and towards Washington creates opportunities for the United States. Trade disparities are one case in point. The intensity of US-China trade is 8 times that (in dollar terms) of China's trade with Moscow. Secondly, the US and China have a host of bilateral energy programs ranging from methane-to-markets, decentralized heat and power production, to exchanges in energy efficiency technologies and know-how. In contrast, while Russia remains the world’s largest user of combined-heat and power (CHP), its CHP infrastructure is dilapidated and in need of efficiency improvements, making the export of these antiquated technologies unviable. Russian energy intensity is also one of the highest in the world, while US energy intensity continues to decline based on the introduction of new technologies—precisely those technologies the Chinese need in order to improve economic performance and reduce energy consumption. Hence it is in China’s long term interest to manage energy demand rather than remain in a trap of unencumbered import dependency. Russia has, does and will have a role in China’s energy future, but it is one that will be closely watched by the Chinese from the standpoint of imbalanced import dependency on Russian resources.

Beyond this, while US interest in Central Asia is strong, diplomatic and commercial ties are vastly under-developed. In contrast, China has moved aggressively and successfully into Turkmenistan and Kazakhstan. In June it announced progress on a series of energy and security measures in bilateral Uzbek-Chinese relations. While both Russia and China are members of the regional Shanghai Cooperation Organization, both compete for energy and influence across Central Asia, long considered a special neighborhood of interest and influence by the Russian Federation. Russia is by far the elephant in the room, with long standing cultural, linguistic, historic and security-ties to former Soviet states. Thus, the Sino-Russian strategic partnership is probably more accurately described an ‘axis of convenience’ as Bo Bo Lo of Europe’s Center for European Reform has put it. Dilemmas such as this present a theater of opportunity for US and European interests to strengthen their ties with this vast region’s powers and to obviate an unnecessary deepening of a coalition of interests or strategic realignment that could threaten US and European interests across Asia and the Pacific. Globally, whether it is in the area of environmental issues or energy, Sino-Russian relations do matter. China is now the world’s largest emitter of GHGs and Russia will soon equal US per capita carbon dioxide emissions. Global oil markets benefit from Russian oil and supplies, and global oil prices are affected by Chinese resource demand across all energy sectors. Therefore, energy developments in both countries, and ties between them, are important aspects of global energy security that deserve far greater scrutiny than is presently being afforded.

*Kevin Rosner is a Senior Fellow at the Institute for the Analysis of Global Security*